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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72309; File No. SR-NYSEArca-2014-62)

June 4, 2014

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending the NYSE Arca Options Fee Schedule Relating to Fees on Strategy Executions

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on May 23, 2014, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of the Substance of the Proposed Rule Change

The Exchange proposes to amend the NYSE Arca Options Fee Schedule (“Fee Schedule”) relating to fees on Strategy Executions. The Exchange proposes to implement the fee change effective June 1, 2014. The text of the proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it

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<sup>1</sup> 15 U.S.C.78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this filing is to modify the Exchange's Limit of Fees on Options Strategy Executions ("Strategy Cap") to include Flexible Exchange Option ("FLEX")<sup>4</sup> transactions executed as part of a qualifying Strategy Execution.

Currently, certain Strategy Executions are eligible to be capped at \$750 per day in transaction fees, and further capped at \$25,000 per month per initiating firm. Strategies eligible for the Strategy Cap involve reversals and conversions; box spreads; short stock interest spreads; merger spreads; and jelly rolls.<sup>5</sup> The Exchange, however, currently deems FLEX transactions

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<sup>4</sup> See NYSE Arca Rule 5.30(4) [sic] (defining Flexible Exchange Option as a "customized options contract").

<sup>5</sup> See NYSE Arca Options Fees and Charges, available at, [https://globalderivatives.nyx.com/sites/globalderivatives.nyx.com/files/nyse\\_arca\\_options\\_fee\\_schedule\\_for\\_4-1-14.pdf](https://globalderivatives.nyx.com/sites/globalderivatives.nyx.com/files/nyse_arca_options_fee_schedule_for_4-1-14.pdf), n. 10, defining the eligible Strategy Executions as follows:

(a) Reversals and Conversions. A "reversal" is established by combining a short security position with a short put and a long call position that shares the same strike and expiration. A "conversion" is established by combining a long position in the underlying security with a long put and a short call position that shares the same strike and expiration.

(b) Box spread. A "box spread" is defined as transactions involving a long call option and a short put option at one strike, combined with a short call option and long put at a different strike, to create synthetic long and synthetic short stock positions, respectively.

(c) Short stock interest spread. A "short stock interest spread" is defined as transactions done to achieve a short stock interest arbitrage involving the purchase, sale and exercise of in-the-money options of the same class.

ineligible for the Strategy Cap. OTP Holders and OTP Firms occasionally receive orders for eligible Strategy Executions where one or more legs is comprised of a FLEX trade. Because FLEX trade fees are not eligible to be capped as part of a Strategy Execution, the OTP Holders and OTP Firms lose business to other markets that include FLEX transactions in their own competing Strategy Cap.<sup>6</sup>

NYSE Arca proposes to allow fees from FLEX transactions that are part of an otherwise eligible Strategy Execution to be included in the Strategy Cap.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>7</sup> in general, and furthers the objectives of Sections 6(b)(4) and (5) of the Act,<sup>8</sup> in particular, because it provides for the equitable allocation of reasonable dues, fees, and other charges among its members, issuers and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

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(d) Merger spread. A “merger spread” is defined as transactions done to achieve a merger arbitrage involving the purchase, sale and exercise of options of the same class and expiration date, each executed prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock.

(e) Jelly rolls. A “jelly roll” is created by entering into two separate positions simultaneously. One position involves buying a put and selling a call with the same strike price and expiration. The second position involves selling a put and buying a call, with the same strike price, but with a different expiration from the first position.

<sup>6</sup> See, e.g., NYSE Amex Options Fee Schedule, available at, [https://globalderivatives.nyx.com/sites/globalderivatives.nyx.com/files/nyse\\_amex\\_options\\_fee\\_schedule\\_for\\_2-3-14\\_0.pdf](https://globalderivatives.nyx.com/sites/globalderivatives.nyx.com/files/nyse_amex_options_fee_schedule_for_2-3-14_0.pdf).

<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(4) and (5).

The Exchange believes that the proposed inclusion of Strategy Executions that are comprised in whole or in part by FLEX transactions in the Strategy Cap to be reasonable as it will reduce the total transaction costs for these types of trades. In addition, the proposed fee change is reasonable because it is similar to the strategy caps available on other Exchanges.<sup>9</sup> The use of these Strategy Executions benefit all market participants by increasing liquidity in general and allowing significantly large business to be brought together to enhance price discovery. By encouraging this type of business on the Exchange, the increased liquidity benefits all market participants.

The Exchange also believes that the proposed inclusion of Strategy Executions that are comprised in whole or in part by FLEX transactions in the Strategy Cap is also not unfairly discriminatory, as Strategy Executions can be conducted by any OTP Holder or OTP Firm.

Finally, the Exchange believes that it is subject to significant competitive forces, including from options exchanges that do not exclude FLEX transactions from their strategy caps, as described below in the Exchange's statement regarding the burden on competition. For these reasons, the Exchange believes that the proposal is consistent with the Act.

#### B. Self-Regulatory Organization's Statement on Burden on Competition

In accordance with Section 6(b)(8) of the Act,<sup>10</sup> the Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed fee change reduces the burden on competition because it will allow OTP Holders and OTP Firms to compete for business by broadening the scope of eligible transactions to be included in the Strategy Cap,

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<sup>9</sup> See supra n. 6.

<sup>10</sup> 15 U.S.C. 78f(b)(8).

which change would bring the Strategy Cap in line with the strategy caps available on other options exchanges.<sup>11</sup>

The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues, and providing a cap on Strategy Executions comprised in whole or in part by FLEX transactions in a manner consistent with other trading venues will encourage competition. In such an environment, the Exchange must continually review, and consider adjusting, its fees and credits to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)<sup>12</sup> of the Act and subparagraph (f)(2) of Rule 19b-4<sup>13</sup> thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

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<sup>11</sup> See supra n. 6.

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(2).

Commission shall institute proceedings under Section 19(b)(2)(B)<sup>14</sup> of the Act to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEArca-2014-62 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEArca-2014-62. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F

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<sup>14</sup> 15 U.S.C. 78s(b)(2)(B).

Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2014-62, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).